



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony of
Connecticut Insurance Department
Before the
The Insurance and Real Estate Committee

February 24, 2011

SB 975—An Act Authorizing the Insurance Commissioner to Enter into the Nonadmitted Insurance Multistate Agreement has been raised at the request of the Connecticut Insurance Department in response to the federal Nonadmitted and Reinsurance Reform Act of 2010 ("NRRA"), which is subtitle B of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Department would like to thank the Co-Chairmen of the Insurance and Real Estate Committee for raising this bill on our behalf.

Proposed Senate Bills 50 and 975, and House Bill 6363, have all been introduced in response to the NRRA. In addition, we understand the legislature's Finance, Revenue and Bonding Committee raised legislation in response to the NRRA proposed by the Department of Revenue Services ("DRS") in consultation and with the support of the Insurance Department.

Most of NRRA's provisions go into effect in July 2011, but states effectively have until June to become part of a nationwide solution or risk losing valuable surplus lines premium taxes to the "home state" of the insured on a multi-state placement. Thus, time is of the essence. In Connecticut, more than \$17 million is collected per year in premium tax revenue related to unlicensed insurers: \$11.3 million by the Insurance Department from surplus lines brokers and \$6 million by DRS from insureds who procure insurance with an unauthorized insurers (other than through a surplus lines broker pursuant to the surplus lines law). By way of background, nonadmitted or surplus lines insurance is a system of insurance in use for unusual or high risk insureds who can not obtain insurance in the conventional, fully regulated licensed property-casualty insurance market.

We believe it is imperative to preserve the ability of states to receive surplus lines premium taxes based on the risk or exposure located in a given state.

At the same time, given the rapid time frame Congress has given states to comply with NRRA, the Connecticut Insurance Department and the National Association of Insurance Commissioners ("NAIC") are concentrating on tax allocation with the Nonadmitted Insurance Multistate Agreement ("NIMA") concept, which is the focus of Senate Bill 975, and is also referenced in the DRS bill. NIMA is modeled after the International Fuel Tax Agreement, which successfully allocates fuel taxes among 48 states -- including Connecticut -- and ten Canadian provinces.

Among the key features in NIMA is that a central clearinghouse for reporting, collecting and distributing surplus lines premium taxes would be established. Surplus lines licensees and those independently procuring surplus lines insurance would have access to web based software for ease of filing and reporting. Uniform allocation formulas and reporting methods would be prescribed. In short, NIMA addresses many of the issues in surplus lines regulation that led to the passage of the NRRA.

NIMA is not a broad regulatory compact and it does not go as far as the surplus lines industry would prefer, and we recognize that it is just one part of state implementation of surplus lines regulatory reform. This concept allows states to address the pressing issue of preserving premium tax revenue within the very short period of time provided by Congress by borrowing the successful fuel tax agreement model, and to address other areas of surplus lines regulatory reform with the thoughtfulness they deserve.

We want to point out that NIMA is not the only model that deals with surplus lines tax allocation. An alternative model, SLIMPACT, the subject of House Bill 6363, is endorsed by the surplus lines industry and has also been endorsed by the National Council of Insurance Legislators and the Council of State Governments. Our concerns with SLIMPACT are both practical and substantive. We are concerned that SLIMPACT would establish a compact that would have the authority to preempt state statutes in ways that go beyond what we believe is required by NRRA, and that the operations committee would include members of the industry that is being regulated. This would put the regulated industry in the position of promulgating rules governing its own behavior that would preempt state laws drafted by state legislatures.

Insurance Department staff has already been working closely with DRS staff on this issue. We also look forward to working closely with the Committee, legislative staff and interested parties on this important matter.

Thank you, once again, for raising SB 975 on our behalf. The Insurance Department urges the Committee to take favorable action on this bill.